



STATE OF INDIANA

Request for Information 12-112

INDIANA DEPARTMENT OF ADMINISTRATION

On Behalf Of

Office of Management and Budget

Solicitation For:

Audit of Department of Revenue's Internal Controls and Review
of Policies and Procedures Related to IT and Financial Operations

Response Due Date: May 23, 2012

Steve Webb, Strategic Sourcing Analyst
Indiana Department of Administration
Procurement Division
402 W. Washington St., Room W478
Indianapolis, Indiana 46204

PURPOSE OF THE SOLICITATION

This is a Request for Information (RFI) issued by the Indiana Department of Administration (IDOA) in conjunction with the Office of Management and Budget (OMB). It is the intent of IDOA to solicit responses to this Request for Information (RFI) in accordance with the statement of work and specifications contained in this document. Neither this RFI nor any response (proposal) submitted hereto is to be construed as a legal offer.

The purpose of this solicitation is to select a firm to conduct an initial financial operational risk assessment of the State of Indiana's Department of Revenue (DOR). Based in part upon the results of the risk assessment, the firm will audit the DOR's internal controls and review the policies and procedures related to its informational technology and financial operations. The specific scope of the audit will depend upon the results of the risk assessment, but an initial set of questions to be included in the scope of the audit have been identified below. The final deliverable shall include recommendations for improving IT and financial controls and other recommendations deemed appropriate by the audit firm (e.g., replacement of IT system(s), organizational/structural changes, legislative changes, etc.).

BRIEF DESCRIPTION OF DEPARTMENT OF REVENUE (DOR) SYSTEMS/FUNDS

The DOR is the State agency primarily responsible for collecting and accounting for a majority of State revenues, especially general fund revenues. The primary system used by the DOR to track tax payments is the Returns Processing System (RPS), although the DOR utilizes numerous other IT systems. The primary fund utilized by the DOR to account for tax revenues – including sales, individual, corporate, utility, etc. – is the Collections Fund. In addition to transferring State revenues to their proper funds, the DOR is also responsible for generating reports regarding the distribution of local revenues, such as local option income taxes, food and beverage, auto rental, professional sports development areas, etc.

SUMMARY SCOPE OF WORK

Financial Operational Risk Assessment - The Respondent will provide a fixed fee proposal to develop a risk assessment of the agency's IT and financial operations, specifically:

1. The adequacy of the DOR's internal IT and financial controls
2. The adequacy of the DOR's current IT systems, policies and procedures
3. The adequacy of the DOR's current financial policies and procedures
4. The adequacy of the IT, financial and auditing organizational structure

The risk assessment should incorporate the various aspects of risk, including, but not limited to, size (both dollars and number of transactions), complexity of operations, control weaknesses, and the propensity for human error. Given that the scope of the audit could be fairly broad, the selected firm will be asked to assist in prioritizing the review of the DOR's numerous processes, IT programs, and funds.

Based upon the results of the initial risk assessment, the Respondent will be tasked with auditing the DOR's internal controls as well as reviewing the policies and procedures related to its IT and financial operations. The Respondent will be asked to develop a "Draft Audit Plan" upon completion of the risk assessment. The plan will detail the proposed scope of the audit, including a timeline and a specific list of deliverables. At a minimum, the Audit Plan shall include the following items:

- Determine whether proper controls (IT and financial) are in place and are working as they should. The Respondent should test samples to ensure controls are working as intended. If not, the Respondent should make specific recommendations as to improvements that can be made.
 - Determine whether accurate reports are being generated from RPS and other IT systems.
 - Evaluate the processes involved when federal and/or State tax changes are made. Review the process by which the DOR makes any changes to RPS or other IT systems to ensure adequate controls exist.
- Determine whether the DOR's organizational structure is appropriate. If not, the Respondent should make specific recommendations as to how the structure should be changed to address the identified weaknesses.
- Determine whether the DOR's internal audit structure and procedures (e.g., criteria and methodologies for selecting audit work) are appropriate and adequate. Review actions taken by the DOR as a result of internal audit efforts, including steps taken to mitigate risks. Also review the origins of the internal audit function at DOR, including the risk associated with the absence of any internal audit function prior to 2008. The Respondent should make specific recommendations as to improvements that can be made with respect to internal audit.
- Determine whether the DOR's primary tax tracking and reporting system (RPS) is adequate from an IT, financial, and audit perspective. If not, the Respondent should make specific recommendations as to improvements that can be made.
- Evaluate how data in RPS and other IT systems at DOR flows into the data warehouse, PeopleSoft (the State of Indiana's accounting system), and other applications. Identify any control weaknesses or data integrity issues, including propensity for human error.
- Review DOR's interactions with other State agencies that manage revenues. Determine whether adequate communications and collaboration exists. Also determine whether lines of responsibility and accountability are clear between State agencies. Evaluate whether sufficient "checks and balances" exist. If not, the Respondent should make specific recommendations as to improvements that can be made.
- Comparison of how other State DOR's handle their collection and distribution of tax revenues. This comparison should include a review of best practices and be based on national standards as it relates to IT systems, internal controls, organizational structure, etc.

The Respondent will also be asked to audit and review specific items, especially those that have been identified as high risk (either as a result of errors already being found or as a result of the financial operational risk assessment). Below are examples of such items:

- Assessment of the revenues flowing into and out of the collections fund, including a reconciliation of the fund. Ensure that all revenue streams flowing into the fund have been properly identified. Ensure that all revenue streams are being properly and timely transferred to their appropriate funds.
 - Assessment should include a specific analysis of the corporate e-check error, including how it occurred and how the risk of such an error occurring in the future can be mitigated.
- Review of the local option income tax (LOIT) collection and distribution process and systems, ensuring that all LOIT revenues are being properly and timely identified and included in the county statistics report.
 - Review should include a specific analysis of the recent LOIT error, including how it occurred and how the risk of such an error occurring in the future can be mitigated.
- Review of the collection and distribution processes for other local revenues (e.g., food and beverage, auto rental, professional sports development areas, etc.), ensuring that all local revenues are being properly and timely identified, reported, and distributed.
- Identify key reports and data sets relied upon to make accounting transactions or utilized by decision makers (e.g., the development of the State's revenue forecast, fiscal notes completed by the Legislative Services Agency and State Budget Agency, etc.). Review controls to ensure the information included in those reports and data sets is accurate.

A key aspect of the audit will be the development of recommendations that can be implemented to reduce risk associated with such complex systems in the future. The recommendations may include administrative and legislative changes, and should include both preventive and detective controls in order of priority that can be implemented or strengthened.

DUE DATE FOR PROPOSALS

Firms interested in providing information to IDOA and OMB should submit responses via email to rfp@idoa.in.gov. All responses must be received no later than **3:00 p.m. Eastern Time on Wednesday May 23, 2012**. The subject line of the email submission must clearly state the following:

“RESPONSE TO REQUEST FOR INFORMATION 12-112”

Any information received after the due date and time will not be considered.

Responses will be considered public information once a contract(s) is awarded. If a contract is not awarded, the responses are considered public once the decision is made.

No more than one proposal per Respondent may be submitted.

The State accepts no obligations for costs incurred by Respondents in anticipation of being awarded a contract.

QUESTION AND INQUIRY PROCESS

All questions/inquiries regarding this RFI must be submitted in writing by the deadline of **3:00 p.m. Eastern Time on Monday May 14, 2012**. Questions/Inquiries shall be submitted via email to RFP@idoa.IN.gov and must be received by Procurement Division by the time and date indicated above.

Following the question/inquiry due date, Procurement Division personnel will compile a list of the questions/inquiries submitted by all Respondents. The responses will be posted to the IDOA website. The question/inquiry and answer link will become active after responses to all questions have been compiled. Only answers posted on the IDOA website will be considered official and valid by the State. No Respondent shall rely upon, take any action, or make any decision based upon any verbal communication with any State employees.

Please note that Steve Webb is the State's single point of contact for this RFI. **Inquiries are not to be directed to any staff member of OMB or DOR.** Such action may disqualify Respondent from further consideration for a contract resulting from this RFI.

If it becomes necessary to revise any part of this RFI, or if additional information is necessary for a clearer interpretation of provisions of this RFI prior to the due date for submissions, an addendum will be posted on the IDOA website.

PRICING

Pricing on this solicitation must be firm and remain open for a period of not less than 90 days from the proposal due date. A fixed-fee proposal for the financial risk assessment portion of the engagement and an hourly rate proposal for the follow-on audit portions are required.

OTHER ITEMS TO BE INCLUDED IN THE PROPOSAL

Experience - The Respondent must describe your firm's experience in serving clients of a similar size to the State with a similar scope. The Respondent should have expertise in the auditing of both IT and accounting/financial systems. Experience with both private and public sector clients may be referenced. Specific experience with other states, especially other state DOR's, should be included. Please provide specific clients and detailed examples. If possible, please provide evidence of the work product and/or deliverables associated with a similar project as a sample. Relevant experience will be an important factor in the final selection of the audit firm.

References - The Respondent must include a list of at least (3) three clients for whom the Respondent has provided services that are the same or similar to those services requested in this solicitation. Information provided should include the name, address, and

telephone number of the client facility and the name, title, and phone number of a person who may be contacted for further information.

Standards – The Respondent must identify the IT, operational and accounting standards they will use during the audit. At a minimum, please address the following standards/approaches:

- Generally Accepted Government Auditing Standards (GAGAS) methodology and best practices
- *IT Standards, Guidelines, and Tools and Techniques for Audit and Assurance and Control Professionals*, ISACA methodology
- Per the “Yellow Book” of the Government Accountability Office (GAO), review of both the Application Controls (related to the computer programs themselves) and User Controls (related to personnel interface with the computer programs)

Assessment Plan – The Respondent must provide a plan describing the specific steps they will perform as part of the financial risk assessment, including a list of deliverables that will be included.

Key Team Members – The Respondent must include the resumes of all key team members planned to be part of the engagement, including their involvement on similar engagements and a commitment of their availability. The Respondent must also identify how the team will be organized, and demonstrate that it has sufficient resources to conduct an audit of this magnitude.

Timeline – The Respondent must provide an approximate timeline indicating when each phase of the engagement can be completed, including important milestones. Time is of the essence for this engagement; however, speed should not replace quality. Depending upon the length of the engagement, the Respondent may be asked to provide interim reports to the State Budget Committee and other stakeholders. Please indicate your willingness to provide these reports.

Statement of Independence – The Respondent must demonstrate in their response that they are fully capable of conducting an *independent* audit. This includes the absence of internal conflicts (business or personal) or pre-conceived biases which would detract from the ability to complete a thorough, factual, and independent analysis.

Oral Presentations – Respondents may be asked to make oral presentations sometime between May 29th and June 1st. Respondents must identify dates and times they are available during that week. Please be as generous as possible with your time as we will likely be scheduling multiple presentations in a short timeframe.

PROPOSAL EVALUATION PROCEDURE

The State has selected a group of personnel to act as a proposal evaluation team. This team will, in the exercise of their sole discretion, determine which proposal offers the best means of serving the interests of the State. The exercise of this discretion will be final.